

# Audit



# Report

OFFICE OF THE INSPECTOR GENERAL

**CONTROLS OVER VENDOR PAYMENT  
AUTHORIZATIONS BY THE  
DEFENSE COMMISSARY AGENCY**

Report No. 93-135

June 30, 1993

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The following acronyms are used in this report.

ADP.....	Automated Data Processing
DeCA.....	Defense Commissary Agency
GAO.....	U.S. General Accounting Office
OMB.....	Office of Management and Budget
SAVES.....	Standard Automated Voucher Examination System



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202

June 30, 1993

MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY

SUBJECT: Audit Report on Controls Over Vendor Payment  
Authorizations by the Defense Commissary Agency  
(Report No. 93-135)

We are providing this final report for your information and use, as part of our audit of the FY 1992 Resale Stock Fund Financial Statements. It addresses issues related to the adequacy of controls over processing vendor payments that could impair the Defense Commissary Agency's (DeCA) ability to develop reliable information needed to prepare the FY 1992 Resale Stock Fund financial statements. This report addresses completed audit results based on a statistical sample of vendor payments made during the first half of FY 1992. Many of the issues noted in this report were previously identified in memorandums and a quick-reaction report to the Director, and action has been taken or is ongoing to correct the identified problems. Therefore, the recommendations in this report address only those issues where further action is necessary to improve internal controls over vendor payments. We have considered your comments in preparing this final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, we request that DeCA provide final comments on the unresolved recommendations and the estimated monetary benefits. Recommendations and potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. We request final comments by July 30, 1993.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Robert Ryan at (703) 692-3457 (DSN 222-3457) or Mr. Walter Loder at (703) 692-3387 (DSN 222-3387). The planned distribution of this report is listed in Appendix D.

A handwritten signature in black ink, reading "Robert J. Lieberman", is positioned above the typed name.

Robert J. Lieberman  
Assistant Inspector General  
for Auditing

Office of the Inspector General, DoD

Report No. 93-135

June 30, 1993

Project No. 2LA-2003.03

**CONTROLS OVER VENDOR PAYMENT**  
**AUTHORIZATIONS BY THE DEFENSE COMMISSARY AGENCY**

**EXECUTIVE SUMMARY**

**Introduction.** On October 1, 1991, the Defense Commissary Agency (DeCA) was established through the consolidation of Army, Navy, Air Force, and Marine Corps commissary systems. The Office of the Secretary of Defense centralized commissary management under one Defense agency to reduce DoD cost of operating the commissary system. A key decision was to achieve the consolidation without gradually phasing in different commissary store systems. DeCA manages 384 commissary stores worldwide, and employs about 23,000 workers. Sales were \$6.1 billion in FY 1992 and are estimated at \$6.0 billion for FY 1993.

**Objectives.** The principal objective of our audit was to determine whether financial statement accounts affected by vendor payments and managed under DeCA's Standard Automated Voucher Examination System (SAVES) present fairly the financial position for these accounts. We also examined the adequacy of internal controls to ensure compliance with laws and regulations that have a material impact on the accounts affected by vendor payments.

**Audit Results.** Based on a sample from \$1.6 billion in CONUS only vendor payments in the first half of FY 1992, DeCA management did not provide adequate internal controls over vendor payment transactions. Specifically:

- o DeCA's vendor payment process lacked the internal controls necessary to ensure that all payment authorizations for vendor invoices were authorized, valid, and accurate. As a result, DeCA authorized disbursements of \$404 million without proper supporting documentation, paid \$11 million in duplicate vendor payments and entered another \$191 million in duplicate invoices into the bill paying system (SAVES). For FY 1992, we identified potential duplicate payments of up to \$17 million (Finding A).

- o DeCA did not adhere to the requirements of the Prompt Payment Act and Office of Management and Budget Circular A-125, "Prompt Payment." As a result, DeCA paid almost \$6 million in interest and sustained \$2.9 million in lost discounts in FY 1992. Additionally, we project that DeCA underpaid about \$2.4 million in interest to vendors during the first half of FY 1992. (Finding B).

**Internal Controls.** Internal controls were not effective to ensure that vendor payments were made only with the proper invoices, evidence of delivery, and a valid contract. See Findings A and B for details on these material weaknesses and Part I for a description of the controls assessed.

**Potential Benefits of Audit.** We identified monetary benefits of up to \$208 million. Of the \$208 million, DeCA took action to avoid duplicate payments of \$191 million. The remaining \$17 million in duplicate payments could still be recouped (see Appendix B).

**Summary of Recommendations.** We recommended that DeCA obtain documentation on the SAVES, provide additional edit checks on bill paying, move financial functions under the operational control of the Director, Resource Management, prepare and execute a written bill paying plan to exercise quality control over bill paying, and evaluate employees on internal controls implementation. We also recommended controls to ensure that service center personnel meet the Prompt Payment Act requirements.

**Management Comments.** The Director, DeCA was responsive to most of the draft report recommendations. However, the Director did not address the need for additional edit checks. Additionally, although DeCA concurred with the need for and stated that several directives had been issued to improve and test the software in its bill paying system, DeCA did not address the need to prepare and execute a written bill paying plan to exercise quality control by testing the implementation of the bill paying system by service center personnel. Further, the Director did not agree with the amount of projected duplicate payments and \$191 million in funds put to better use. A full discussion of management comments and audit responses is in Part II and Part IV of this report. The full text of management comments is also in Part IV.

**Audit Response.** We request that DeCA reconsider its position and respond to the unresolved recommendations and potential monetary benefits in response to the final report by July 30, 1993.

## TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
PART I - INTRODUCTION	1
Background	1
Objectives	1
Scope	2
Internal Controls	2
Prior Audits and Other Reviews	2
Other Matters of Interest	4
PART II - FINDINGS AND RECOMMENDATIONS	7
A. Vendor Payment Processing Controls	7
B. Adherence to the Prompt Payment Act	17
PART III - ADDITIONAL INFORMATION	21
APPENDIX A - Statistical Sampling Plan and Results	23
APPENDIX B - Summary of Potential Benefits Resulting from Audit	25
APPENDIX C - Organizations Visited or Contacted	27
APPENDIX D - Report Distribution	29
PART IV - MANAGEMENT COMMENTS	31
Defense Commissary Agency	33
Audit Response to Significant Management Comments	45

This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate at (703) 614-6303 (DSN 224-6303).

## PART I - INTRODUCTION

### Background

The Defense Commissary Agency (DeCA) was established on October 1, 1991. DeCA was formed by consolidating the commissary systems in the Army, Navy, Air Force, and Marine Corps under one Defense agency. The Jones Commission recommended the consolidation and Defense Management Review Decision 972 provided for the transfer of budgetary resources.

DeCA centralized the management of commissaries under a director who reports directly to the Assistant Secretary of Defense (Production and Logistics). The decision was made to totally consolidate the commissaries on October 1, 1991, rather than gradually phasing in the different commissary store systems.

DeCA is responsible for managing DoD's commissary system. DeCA operates DoD commissaries worldwide, provides troop issue subsistence for the Air Force and the Army at selected locations, and programs the replacement of war reserve materiel rotation rations for the Air Force. DeCA manages 384 commissary stores worldwide and employs about 23,000 workers. Commissary sales for FY 1992 were \$6.1 billion and are estimated at \$6.0 billion for FY 1993.

Commissary operations are financed by direct appropriation. The amount requested for appropriated funding is equal to the estimated total expenses required for support of commissary operations in each fiscal year. The three sources of funds for DeCA are the resale stock fund, the commissary surcharge collections fund, and operations and maintenance funds of DoD. These funds are subject to apportionment controls and to all laws and regulations pertaining to appropriated funds. The resale stock fund and operations funds are included in the Defense Business Operating Fund.

DeCA has two service centers, the east and west service centers. The commercial accounts branch of each service center is responsible for processing the vendor invoices for payment authorization. The service centers process over 100,000 vendor invoices each month.

### Objectives

The overall objective was to determine whether financial statement accounts (such as inventory, accounts payable, and cost of goods sold) affected by vendor payments and managed under DeCA's Standard Automated Voucher Examination System (SAVES) present fairly the financial position for the accounts. An additional objective was to determine whether DeCA service



centers have established adequate internal controls to ensure compliance with laws and regulations that have a material effect on the accounts affected by vendor payments.

### Scope

We reviewed DeCA's bill paying internal control policies and procedures. We also reviewed payment approval vouchers, invoices, receipt information, and vendor credit memorandums. We statistically selected for audit 18 commissary stores and 446 payment authorization transactions for CONUS vendors made during the period October 1, 1991, to March 26, 1992. The statistical selection plan is discussed in Appendix A.

This financial related audit was made from October 1991 to September 1992 in accordance with financial auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. Organizations visited or contacted during the audit are shown in Appendix C.

### Internal Controls

The audit identified material internal control weaknesses as defined by Public Law 97-255, Office of Management and Budget (OMB) Circular A-123, and DoD Directive 5010.38. Controls were not established or effective to ensure that payments to vendors were accurate, valid, and timely. All recommendations in this report, if implemented, will correct the weaknesses. The monetary benefits that can be realized by implementing the recommendations are \$208 million (see Appendix B). A copy of the final report will be provided to the senior official responsible for internal controls within the Office of the Secretary of Defense (OSD) and DeCA.

### Prior Audits and Other Reviews

The Office of the Inspector General, DoD has issued the following memorandums and reports to the Director DeCA:

Inspector General, DoD, "Management Advisory Memorandum - Controls Over Vendor Payments and Related Transactions for the Defense Commissary Agency's FY 1992 Resale Stock Fund Financial Statements," March 17, 1992, identified the results of preliminary review of internal controls over vendor payments. We identified conditions that affected the adequacy of internal controls and the reliability of DeCA's financial data. The memorandum suggested that DeCA document and enforce its operational policies and improve compliance with the Prompt Payment Act. In response, DeCA stated that proper procedures and policies had already been implemented but additional guidance would be prepared. DeCA also stated that its policy is to pay only proper invoices and receipts in compliance with the Prompt

Payment Act. Further, DeCA blamed automated data processing complications on operating software problems, data storage, and equipment.

Inspector General, DoD, "Management Advisory Memorandum-Duplicate Vendor Payments, Audit of the FY 1992 Resale Stock Fund Financial Statements," May 4, 1992, provided audit results of preliminary work in the vendor payment area. The memorandum concluded that internal controls were inadequate to ensure that authorized vendor payments did not result in duplicate vendor payments. It suggested that DeCA use only appropriately trained personnel to enter valid invoice data that show invoice numbers compatible with DeCA's bill paying system. The memorandum also suggested that receipt information be entered only at the commissaries and that commissary store employees delay reentry of receipt information until signed written verification of a proper reversal can be obtained. The memorandum further suggested that DeCA develop edit checks to identify possible duplicate payments and establish quality control programs to ensure that payments are adequately supported. DeCA concurred with the suggested actions in the memorandum and took steps to correct the identified conditions, except the delayed reentry of data until verification of the Service Center's reversal of the previous receipt. DeCA stated that commissary personnel should not reenter any receipt data that was initially input incorrectly, but that all corrections be made at the service centers. We did not take exception to the alternative action proposed by DeCA.

Inspector General, DoD, "Management Advisory Memorandum - Control Environment, Audit of the FY 1992 Resale Stock Fund Financial Statements," September 29, 1992, discussed the usage of the internal review and IG staffs of DeCA. The memorandum suggested that all DeCA IG personnel work on appropriate oversight projects and not operational projects. It also suggested that DeCA instruct regional auditors to report to the Chief of the Internal Review Office (IRO) and the Chief of IRO report to the Deputy Director or Director. Further, the memorandum suggested that DeCA conduct an evaluation of staffing resources needed to operate an effective internal oversight mission. DeCA concurred with all the suggested actions in the memorandum and is taking action to correct the identified conditions.

Inspector General, DoD, Audit Report No. 93-028, "Quick-Reaction Report on Physical and System Security at the East Service Center of the Defense Commissary Agency," November 30, 1992, reported that DeCA's East Service Center had not developed any written policies and procedures on security and had not established a formal security program. The report stated that minimum security requirements included provisions for the accountability of user password protection; security training and awareness; and physical control of hardware, software, and data. The report recommended that DeCA limit the system administrator's access to databases; develop password generation procedures; start conducting security entrance and exit briefings and a training

program; establish criteria to determine who is allowed access to the computer room; and establish a contingency plan for alternate site processing. DeCA management concurred with four of the five report recommendations. DeCA nonconcurred with limiting system administrator access, but proposed an acceptable alternative action.

Inspector General, DoD, Audit Report No. 93-096, "The System Used by the Defense Commissary Agency to Pay Vendors' Invoices," May 14, 1993, concluded that DeCA's system for paying vendors' invoices was not timely. As a result DeCA missed savings available through vendor discounts and incurred interest expense. DeCA had also not reassessed its existing staffing levels to redetermine the number of automated data processing (ADP) personnel needed to support current or future information systems. We recommended that the Director, DeCA, revise DeCA Directive 70-10 to require service centers and its commissaries to improve the bill paying process, taking maximum advantage of discounts for prompt payments and minimizing interest cost. We also recommended that the Assistant Secretary of Defense (Production and Logistics) request an independent study to determine the proper staffing levels for DeCA's ADP operations. Management comments to our recommendations were responsive and management is acting on all recommendations.

Inspector General, DoD, Audit Report No. 93-124, "Report on the Controls Over Vendor Payments, Returned Checks, and Rebates," June 24, 1993, reported that during the first half of FY 1992, DeCA did not adequately control financial transactions related to vendor payments, returned checks, and rebates. As a result, DeCA could not be assured that the financial accounts related to vendor payments represent appropriately authorized transactions. We recommended that DeCA issue or modify procedures to ensure that the receipt of vendors' merchandise is verified and that prompt feedback on any deficiencies of fast payment vendors is provided to the contracting officers and require that vendor checks be endorsed and deposited promptly. We also recommended that DeCA record the estimated rebates due from cigarette vendors as an account receivable on the financial records, periodically reconcile the actual vendor rebates received with the recorded accounts receivable amount, and separate the duties of personnel responsible for contracting for cigarette rebates from personnel receiving rebate checks. The Director concurred or partially concurred with our recommended actions. The Director did not agree that expired contracts must be removed from SAVES in order to prevent improper vendor payments but he proposed acceptable alternative procedures.

#### Other Matters of Interest

DeCA has taken actions to improve the vendor payment process. It has established written policies and procedures (DeCA Directives 70-10, July 1, 1992, and 70-16, July 10, 1992) at the service center level on processing bills, contracting, and

implementing quality assurance reviews to support payments to vendors. DeCA has also installed an electronic recognition system that notifies the system of transmittals from the commissaries, and an edit function that requires a completed invoice number field. Additionally, DeCA has implemented instructions prohibiting computer access password sharing and requiring personnel to clear screens before leaving a work station. DeCA's response to a draft of this report included additional steps DeCA has taken to improve bill paying. The steps include establishing a plan to help small businesses, retraining bill paying personnel, developing contract matrixes for each vendor, and preparing a bill paying guide for vendors.

During our audit, we determined that DeCA was paying vendors more than once for a delivery. The extra payments occurred because the SAVES lacked rudimentary edit checks that would detect duplicate receipts or invoices. In February 1992, we informed DeCA, and DeCA took prompt action to research the bill paying system for duplicate invoices. As a result, DeCA deleted \$191 million in duplicate invoices from the bill paying system.

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## PART II - FINDINGS AND RECOMMENDATIONS

### A. VENDOR PAYMENT PROCESSING CONTROLS

DeCA's vendor payment process did not provide adequate controls to ensure that, during the first half of FY 1992, all payment authorizations for vendor invoices were authorized, valid, and accurate. The problem occurred because DeCA did not require adherence to existing internal control procedures and directed employees to circumvent control practices. Additionally, DeCA did not test and adopt an adequate vendor payment system to include written procedures; system documentation, adequate processing controls, such as ADP edit checks; and provide adequate personnel staffing, training, performance standards, and segregation of duties. Further, DeCA did not adequately communicate contract numbers to vendors and ensure that there was an adequate quality assurance program. As a result, DeCA's vendor payment records and financial accounts may be materially misstated. Additionally, during the first half of FY 1992 DeCA authorized payment of \$404 million for payments that did not meet the requirements for valid payments, as established by the DoD Accounting Manual; paid \$11 million in duplicate payments; and entered another \$191 million in duplicate invoices into the bill paying system. For FY 1992, we identified potential duplicate payments of up to a total of \$17 million.

#### DISCUSSION OF DETAILS

##### Background

The General Accounting Office (GAO) "Standards For Internal Controls In The Federal Government," 1983, and the DoD Accounting Manual (DoD Manual 7220.9-M), February 1988, state that adequate internal controls are essential for accurate and reliable accounting information and the safeguarding of assets. The documents emphasize that management has the responsibility for establishing and maintaining an appropriate internal control structure. During a 1-year transition period, prior to October 1, 1991, DeCA planned for its bill paying process by selecting a modified version of the Army's SAVES as its bill paying system.

The DoD Accounting Manual requires that vendor payments be supported by a proper invoice, evidence of delivery, and a valid contract. It also requires that the invoice amount and receipt amount match or be reconciled if the amounts differ by more than an established dollar threshold. If the reconciliation shows that the invoice is improper (such as incorrect description, price, or quantity) the vendor is to be notified.

DeCA uses SAVES to meet the requirements of the DoD Accounting Manual. SAVES depends on a variety of inputs, such as contracting and pricing information, data entry of vendor invoices at DeCA bill paying service centers, and entry of receipt information from the commissary stores. SAVES matches invoice and receipt data for authorized contracts by comparing the contract number, call (delivery) number, and Department of Defense Activity Address Code (store identifier).

Invoices matched with receipts, within a \$200 threshold, appear on a precertification listing for review by voucher examiners 1 business day before being listed on a payment approval voucher and paid by the Defense Finance and Accounting Service Center - Columbus. Voucher examiners are required to reconcile differences between vendor invoices and store receipt dollar amounts that are in excess of \$200. If a voucher examiner cannot locate the appropriate invoice to support the payment, the examiner is to verbally inform a team leader. The team leader decides to delete or retain the invoice on the precertification listing. If no action is taken the invoice will be automatically authorized for payment and the vendor paid.

#### Invalid and Duplicate Payments

DeCA's vendor payment process did not ensure that all payments made to vendors were authorized and valid and not duplicates. We categorized payments as unauthorized and invalid if they did not meet the support requirements established in the DoD Accounting Manual; that is, payments certified by an authorized official and supported by invoices, evidence of delivery, and matching invoice and receipt information.

We estimated that \$404 million (25 percent) of the \$1.625 billion in vendor payment authorizations from October 1, 1991, through March 26, 1992, were invalid. Based on a sample of 446 transactions, there were 171 invalid payments, as follows: 65 payments were not supported by an invoice; 60 did not have a valid matching receipt; 35 were not supported by a signed payment authorization voucher; 10 were mismatched invoices and receipts; and 1 payment was based on an illegible facsimile. A majority of the invalid payments included two or more of the invalid attributes.

Based on our review of 446 transactions, we also concluded that DeCA's controls did not ensure that payment authorizations were not duplicated. Vendors were paid more than once on a submitted "original" invoice. We identified 26 occurrences of duplicate payments totaling \$188,933, which were used to statistically project \$11 million in duplicate payments. We also identified 31 occurrences totaling \$236,158, where DeCA authorized payment on a "nonoriginal" invoice from a vendor. For instance, if a vendor was not paid promptly the vendor assumed that the original invoice was lost and submitted another invoice for payment. The

vendor was paid for both invoices. We did not project the duplicate payments on a nonoriginal invoice; however, we did project duplicate payments made on the same original invoice.

#### **Adherence to Existing Internal Controls**

DeCA directed personnel to weaken existing controls to expedite payments. DeCA managers, in the absence of clearly documented procedures, authorized personnel to deviate from sound business practices. The practices included researching differences between receipts and invoices before reversals or changes to receipt data. The matching of receipt and invoice data and researching differences are important internal controls.

When an invoice could not be readily matched with a receipt, DeCA voucher examiners, with the knowledge of DeCA management, directed personnel at commissary stores to reenter receipt information under a second contract number or change the delivery number to expedite payment. Before authorizing payment, the voucher examiners should have ensured that the original entries were reversed (deleted from data base) and not paid. Although the original entry was supposed to be reversed to prevent duplicate payments, the service centers authorized payments for both entries. The reversal of the original receipt data did not occur before the payments were verified and authorized; therefore, the double payments.

DeCA management weakened controls over matching invoice and receipt data by directing personnel to not reconcile variances between invoices and receipts when the differences exceeded the specified thresholds. Variances over \$200 required a line by line reconciliation to ensure a proper matching of invoices and receipts. Instead, the voucher examiners paid the lesser of the invoice or receipt amount. As previously reported, DeCA management also weakened controls by directing employees to make pen and ink changes to invoices. Employees were instructed to change information, usually the contract number or call number, in order to process an invoice. Good internal control requires returning incorrect invoices to vendors for correction.

#### **Testing and Adoption of a Bill Paying System**

During the 1-year transition phase from the establishment of DeCA to the transfer of the service commissary stores to DeCA, DeCA did not test and adopt a bill paying system that included written procedures and ADP controls such as edit checks.

**Written procedures for processing vendor payments.** DeCA did not establish and distribute written procedures for processing vendor payments. Policies and procedures for most aspects of its operations, including procedures for processing and entering vendor invoice data and receipt data into the SAVES, were not



established and implemented. Draft procedures for processing vendors' invoices were prepared; however, the procedures were not distributed to the personnel performing those tasks.

Because the draft procedures were not distributed, the east and west service centers were using different invoice processing procedures, neither of which included adequate internal controls. DeCA management issued bill paying guidance to the service centers in July 1992, 10 months after DeCA was formed. As previously reported, the lack of documented procedures contributed to the incorrect entry of invoice and receipt data, and subsequent invalid and duplicate payments.

**Invoice data entry.** DeCA did not establish adequate control procedures to be followed by data entry personnel to ensure that invoice numbers, amounts, and other data were entered accurately and consistently in the automated bill paying system. For example, the same invoice number was entered into the system two different ways; and several vendor invoice amounts were totaled and entered into the automated bill paying system as one invoice amount, with only one of the several invoice numbers entered. Additionally, "net" invoice amounts instead of "gross" invoice amounts were entered into the bill paying system.

The sampled payment transactions showed that duplicate payments can be very difficult to detect because of the inaccurate and inconsistent data entry of invoice numbers. For example, some of DeCA's data entry personnel entered slashes and dashes from invoice numbers, others did not. Invoice number 704621060 was entered as 704621060 and 70462-1060. For seven duplicate payments, valued at \$67,703, only the last four digits of the invoice number were entered. Adequate internal controls would require the entry of complete invoice numbers.

**Receipt data entry.** DeCA did not establish adequate controls over receipt data entry. Receipt information should be entered by the commissary stores based on signed receiving reports. We could not obtain signed receiving reports for 60 of the 446 sampled payment transactions. Service center personnel entered receipt data based on unsigned facsimile transmittal documents without supporting proof of delivery from the commissary stores. Commissary stores totaled and entered several receipt amounts as one transaction, without evidence that all the merchandise was actually delivered. Frequent delivery system and direct store delivery receipts were not supported by detailed receiving reports. Delivery documents for frequent and direct store deliveries were not retained by all commissaries for 6 years and 3 months, as required by DeCA Directive 70-6.

**Automated data processing controls.** DeCA did not have adequate ADP system controls. Adequate ADP controls include adequate testing during systems development; proper systems documentation; built-in systems control features, such as edit checks designed to prevent the reentry of the same data; and

physical and procedural safeguards to prevent unauthorized access and usage of the system. The ADP controls that DeCA established did not meet system requirements and did not ensure that payment data were input accurately and consistently.

**ADP systems testing.** DeCA did not adequately test its computer system and the computer interfaces with the computer systems of the Military Departments. A cause of DeCA's bill paying problems was the inability to receive and process receipt data. Interfaces with other computer systems must be thoroughly tested before a new or modified computer system is implemented. Controls should be tested to ensure that data received is accepted, posted, and maintained in the appropriate accounting records.

DeCA adopted a modified version of the Army's SAVES; but it did not adequately test the computer system's ability to interface with other computer systems in the Military Departments and support about 250 commissary stores in the continental United States. The SAVES was used by the Army Troop Support Agency to process vendor payments for less than 100 stores. As previously reported, because DeCA did not adequately test the modified version of SAVES, the system was not always available due to outages and long overnight processing times, had slow response times, and lost data. Loss of receipt data in the bill paying system understated DeCA's liability to vendors and understated DeCA inventory accounts.

**System documentation.** The bill paying computer system was not adequately documented. Complete and adequate system documentation includes the documents and records that describe computer processing activities, such as descriptions and flowcharts of the system and programs, operating instructions for computer operators; control procedures to be followed by operators and users; and descriptions and samples of required inputs and outputs. The documentation provides a basis for reviewing the system, training new personnel, and maintaining and revising existing systems and programs. DeCA was unable to provide the ADP system documentation to us.

**Edit checks.** As previously reported, DeCA did not implement adequate edit checks in the automated bill paying system to prevent invalid and duplicate payments to vendors. The primary edit check in SAVES matched the contract number, delivery number, and DoD activity code with receipt data. If the data were not duplicated in SAVES and the receipt amount matched within established dollar limits, the transaction was processed. DeCA personnel repeatedly circumvented the edit checks in place by making pen and ink changes to original vendor invoices and entering the revised data into SAVES.

Our sample disclosed pairs of duplicate payment transactions with the same invoice number and vendor and often exactly the same dollar amount. Most of the duplicate payment transactions in our

sample had a changed contract or delivery number. DeCA was unable to provide us documentation showing that additional edit checks existed within the automated bill paying system to prevent duplicate or invalid payments. DeCA personnel stated that the SAVES would accept the entry of data from the same invoice for the same delivery if either the contract number or the call number was changed.

Although DeCA has been working actively to purge the known duplicate invoices from the system, the bill paying system must be corrected so that it does not allow duplicate invoices to be entered. An additional edit check on the vendor and invoice number would greatly reduce the number of duplicate invoices in the system. Parameter checks and edits based on dates could reduce the number of invalid and duplicate payments. For example, an edit check could compare the date merchandise was delivered to a commissary store with the date of an invoice. If the merchandise was delivered after the date of the invoice, the invoice would not be processed until additional research was done.

**Access controls.** As previously reported, managers and other personnel at a bill paying service center informed us that log-on codes, passwords, and clerk ID's were shared. Personnel responsible for entering data into the automated bill paying system were sharing passwords. A "master" password was being used by three individuals to enter receipt information into the system. One of the three employees worked in the computer room where merchandise prices are changed. Passwords should be unique and identify the holder as an authorized user. The use of unique passwords provides access control and management with a way to monitor computer utilization. DeCA management informed us that the practice of password sharing has been eliminated.

**Personnel.** DeCA did not hire enough personnel to handle bill paying, adequately train bill paying personnel, establish adequate performance standards for voucher examiners, and segregate duties of personnel. DeCA had to hire temporary personnel to help reduce the backlog of data entry and vendor payments. Neither the temporary nor the permanent staff were trained to process payment approval vouchers and supporting invoices in a controlled manner. The supervisory span of control for the voucher examiner employees was excessive, an average of 15 employees, more employees than could be adequately trained and supervised. Additionally, the performance standards for voucher examiners did not include as a performance element, the prompt processing of vendor payments.

During our audit, DeCA decided that more personnel were required and initiated action to hire and train additional full-time bill paying personnel. New employee training was to include fraud awareness briefings. Further, performance standards were being revised for voucher examiners' processing of vendor payments in accordance with the Prompt Payment Act.

**Segregation of duties.** In addition to the quantity and training of personnel, the organizational placement of personnel can adversely affect internal controls. A common control technique requires the segregation of duties, that is, a financial manager should not be responsible for accounting related duties. Under DeCA's structure a service center director was responsible for accounting functions, such as bill paying and account reconciliation, as well as operational functions, such as inventory management. Operationally oriented managers emphasized the volume of payments without regard to the need for proper internal controls. DeCA's failure to segregate duties contributed to the lack of adequate controls over vendor payments. Operational control of vendor payments should have been placed under the Director, Resource Management.

**Communication with Vendors.** DeCA did not adequately communicate newly established contract numbers to vendors and commissary stores. As a result, deliveries were reported by the commissaries under one contract number and invoiced by the vendor under another contract number. For payment to occur under DeCA's bill paying system, invoices and deliveries must be recorded separately, but under the same contract number. Nonmatched invoice and receipt data increased the backlog of unpaid invoices. To reduce the contract number confusion, DeCA used numerous means to inform the vendors of the correct contract numbers and directed regional headquarters to develop matrices of contract numbers according to DoD activity and vendor.

#### **Quality Assurance Program**

DeCA did not have a written quality control plan to review vendor payments for adequate support and appropriate authorizations and to review the vendor payment process. A review of payments after the fact is an important procedure to ensure that operating personnel are following the approved policies and procedures and payments are appropriate and correct. Operating personnel were not following approved policies and procedures and payments made were not appropriate and correct because DeCA did not establish a written plan for evaluating, testing, and monitoring the bill paying process. The internal control weaknesses that we noted for duplicate and invalid payments would have been readily detected during quality control reviews using an adequate quality control plan.

#### **Subsequent Actions**

As discussed in Part I, Other Matters of Interest, DeCA deleted \$191 million in duplicate receipts or invoices awaiting payment from SAVES. The items were deleted after we advised DeCA in February 1992 of the need for rudimentary edit checks to detect duplicate receipts or invoices.

After the completion of our fieldwork, we obtained computer tapes from DeCA containing all payment authorizations processed in SAVES for FY 1992. We analyzed the data to determine the total potential duplicate payments processed during FY 1992. We designed edits based on the results of our analysis of the statistical sample for this report. The edits were based on duplicate or similar invoice numbers, invoice amounts, and dates. We found approximately \$17 million of potential duplicate payments for FY 1992. We have provided a listing of the transactions to DeCA management for further analysis.

#### RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

**We recommend that the Director, Defense Commissary Agency (DeCA):**

**1. Obtain Standard Automated Voucher Examination System documentation and upgrade automatic data processing capabilities, by increasing computer edit checks, and documenting the internal controls for the bill paying computer system.**

Management comments. The Director, DeCA, concurred with Recommendation 1., stating that about 85 percent of the ADP documentation has been developed and the additional 15 percent is being developed. The target date for completion of ADP documentation is July 31, 1993. Additionally, the Director stated that edit checks of the invoice number were stopped by DeCA after initial implementation. The Director also stated that the full implementation of the DeCA Interim Business System will further ensure there is no recurrence of the contract and order number problems experienced by DeCA. The complete text of management comments is provided in Part IV.

Audit response. The Director was partially responsive to the audit recommendation. Appropriate actions are being taken regarding SAVES documentation. However, no mention was made of the need for additional edit checks within SAVES to ensure that duplicate payment of invoices does not occur. Therefore, we request additional comments in response to the final report.

**2. Place all financial functions under the operational control of the Director, Resource Management.**

Management comments. The Director, DeCA, concurred with Recommendation 2., stating that all finance functions have been placed under the operational control of the Director, Resource Management.

Audit response. The Director was responsive to the audit recommendation.

**3. Establish a written plan for evaluating, testing, and monitoring the bill paying system.**

**Management comments.** The Director, DeCA, concurred with Recommendation 3., stating that several directives have been issued and implemented which have significantly improved DeCA's system testing and other ADP functions.

**Audit response.** The Director was responsive to the audit recommendation; however, the intent of the recommendation was the establishment of a written quality assurance plan for testing the implementation of the bill paying process by internal review or other quality control personnel. We request that the Director provide additional comments to the recommendation in his response to the final report.

**4. Research the listing of FY 1992 potential duplicate payments provided to DeCA and take action to recoup duplicate payments.**

**Management comments.** The Director, DeCA, concurred with Recommendation 4., stating that a dedicated team at each service center is reviewing invoices for duplication, and that action is being taken to collect duplicate payments.

**Audit response.** The Director was responsive to the audit recommendation.

**Potential Monetary Benefits.** The Director, DeCA did not concur with the amount of the projected monetary benefit of \$17 million. Based on research of potential duplicate payments the service centers project about \$8.6 million in actual recovered duplicate payments. Further, the Director did not concur with the \$191 million in benefits claiming that the invalid invoices were removed from the bill paying system by service center personnel as erroneous invoices. DeCA was aware of the invalid invoice records and would not have permitted them to be paid in error.

**Audit response.** The DeCA estimate of about \$8.6 million is based on a listing we provided to DeCA containing about \$11 million in duplicate payments. We used the list in our statistical sample, covering the period from October 1, 1991, through March 26, 1992. The monetary benefits we claimed were based on a second tape provided to DeCA. The tape was an updated analysis of duplicate payments generated by the audit staff using payment data for all of FY 1992, October 1, 1991, through September 30, 1992. The second tape used the same criteria for identifying duplicate payments as the first listing provided to DeCA.

**Other Matters of Interest.** Regarding the \$191 million in invoices removed from the SAVES, DeCA was not aware of the duplicate invoice problem until we briefed the Director, DeCA, in early February 1992, about duplicate payments and invoices that we had discovered in January 1992. In a May 4, 1992, memorandum

the previous Director, DeCA, said he first became aware of the duplicate payments when the IG audit team briefed him in February 1992. The conditions at DeCA, as stated in this report, were such that many of the duplicate invoices would have been paid. The additional emphasis on removing duplicate invoices was a direct result of IG, DoD, communications with DeCA and the record ought to reflect that fact. We request management comments to the final report regarding the monetary benefits.

## **B. ADHERENCE TO THE PROMPT PAYMENT ACT**

DeCA did not comply with all the requirements of the Prompt Payment Act and OMB Circular A-125 or take advantage of all vendor discounts offered. The noncompliance occurred because DeCA did not require development of a reliable system of internal controls for processing invoices for payment, as discussed in Finding A. Additionally, processing delays and DeCA's failure to issue directives implementing OMB Circular A-125 contributed to the noncompliance. As a result, DeCA paid almost \$6 million in interest and sustained lost discounts of about \$2.9 million during FY 1992. Additionally, we project that DeCA underpaid about \$2.4 million in interest to vendors during the first half of FY 1992.

### **DISCUSSION OF DETAILS**

#### **Background**

The Prompt Payment Act (Public Law 97-177 [S. 1131] May 21, 1982, and Public Law 100-496 [S. 328] October 17, 1988) requires each Federal agency acquiring property or services from a vendor to pay interest if payment is not made by the required payment date. The required payment date is the later of either the date on which payment is due under the terms of the contract, or 30 days after receipt of a proper invoice. In the case of meat or a meat food product, the Packers and Stockyards Act of 1921 (United States Code, title 7, section 182 [3]), specifies the payment date as 7 days after the date of delivery. The Prompt Payment Act requires Federal agencies to notify the vendor promptly of any defect or impropriety in an invoice that would prevent payment and the accruing of interest. If a vendor offers a Federal agency a discount from the amount due in exchange for payment within a specified period, the Federal agency may take the discount if payment is made within the specified period.

OMB Circular A-125, "Prompt Payment," implements the Prompt Payment Act and requires executive departments and agencies to make payments on time, to pay interest penalties when payments are late, and to take discounts only when payments are made on or before the discount date. OMB Circular A-125 states, "The agency must assure that effective internal control systems are established and maintained as required by OMB Circular A-123, "Internal Control Systems," to provide reasonable assurance that administrative activities required under OMB Circular A-125 are effectively and efficiently carried out."

#### **Processing Delays**

Our review of selected sample items, during the first half of FY 1992, from the paid vouchers located at DeCA's east and west



service centers disclosed that 144 of 304 sampled items were paid late. (For our analysis of prompt payment, we assumed that 142 items that lacked support were paid correctly. This may understate the amount of unpaid interest to vendors.) DeCA's processing of vendors' invoices for payment was delayed by processing weaknesses. The weaknesses included delays in mail room openings, date annotation, and forwarding mail to the voucher examination area. Additionally, data entry personnel did not promptly enter data from invoices into the bill paying system, because often computer system problems rendered the SAVES unavailable.

DeCA service centers had unprocessed new and old invoices literally pile up in mail buckets and filing cabinets and on voucher examiners' desks. DeCA had not entered into SAVES an estimated 78,000 invoices at the time of our audit planning visits in December 1991 and January 1992. As a result of processing weaknesses and a previously discussed shortage in properly assigned and trained personnel, DeCA paid \$6 million in interest during FY 1992. Processing delays also contributed to DeCA not taking \$2.9 million of the \$11.7 million in vendor discounts offered to it during FY 1992. Additionally, noncompliance with OMB Circular A-125 resulted in a projected underpayment of about \$2.4 million in interest to vendors during the first half of FY 1992.

#### **Implementation of OMB Circular A-125**

DeCA did not comply with OMB Circular A-125. The noncompliance occurred because DeCA did not issue implementing regulations promptly and establish the necessary internal control systems. Additionally, DeCA managers directed personnel to follow procedures other than those required by OMB Circular A-125.

**Determination of due dates.** OMB Circular A-125 states that for the purposes of determining a payment due date and the date on which interest will begin to accrue, an invoice shall be deemed to be received on the date a proper invoice is actually received by the designated billing office. The agency should annotate the invoice with the date of receipt at the time of receipt. DeCA personnel did not always annotate invoices received with the date of receipt. A DeCA manager directed that invoices received on a Saturday be annotated on a Monday with Monday's date. Annotating a later receipt date delayed the start of the interest payment period and would reduce the interest paid on late payments.

DeCA personnel also did not enter the due date accurately into the bill paying system for interest calculations for 153 of 304 items in our sample. DeCA managers directed personnel to use a date later than the annotated date of invoice receipt as the basis for calculating the due date. For example, if DeCA personnel made pen and ink changes weeks after receiving an

invoice, DeCA instructed its personnel to use the date of the changes as the date of invoice receipt for calculating the due date.

**Return of Improper Invoices.** DeCA personnel did not promptly return all improper invoices to vendors for correction. An improper invoice is one lacking information required to make payment, such as name of vendor; contract number; description, price, and quantity of goods delivered; payment terms; and where payment is to be sent. OMB Circular A-125 states, "...each invoice will be reviewed as soon as practical after receipt to determine whether the invoice is a proper invoice; any invoice determined not to be a proper invoice shall be returned as soon as practicable. Calculation of interest penalties, if any, will be based on an adjusted due date reflecting the reduced number of days allowable for payment."

Rather than returning improper invoices, DeCA directed its personnel to retain some improper invoices for correction. Because invoices were not returned to vendors to correct, they did not receive payments promptly. When DeCA calculated the due dates for invoices it did not increase the interest payment period for the days it held the improper invoices in excess of the number of days permitted by the Prompt Payment Act.

For invoices returned to vendors for correction, DeCA did not maintain adequate records. It kept summary records of returned invoices on manual logs, but did not record the specific invoices returned. Thus, it would be difficult to discern whether a received invoice was an original, duplicate, or corrected invoice.

DeCA was developing a separate automated data base for recording invoices returned to vendors that will not be part of SAVES. Unlike the automated bill paying system, the new system will identify an invoice during data entry as an original or a resubmission of a corrected invoice. The automated tracking of returned invoices should be part of SAVES to reduce the potential for error. At the time of this report DeCA had not implemented the new system.

### **Subsequent Actions**

DeCA has taken actions to comply with OMB Circular A-125. DeCA established written policies and procedures (DeCA Directives 70-10, July 1, 1992 and 70-16, July 10, 1992) at the service center level on processing vendor payments. DeCA Directive 70-10 includes guidance on calculating interest and incorporates the requirements of OMB Circular A-125. Further, DeCA was also revising performance standards for voucher examiners' processing of vendor payments in accordance with the Prompt Payment Act. The performance standards include the requirement for prompt return of incorrect vendor invoices.

RECOMMENDATIONS, MANAGEMENT COMMENTS, AND AUDIT RESPONSE

We recommend that the Director, Defense Commissary Agency (DeCA):

1. Establish controls to ensure that service center personnel meet requirements of the Prompt Payment Act.

Management comments. The Director, DeCA, concurred with Recommendation 1., stating that DeCA Directive 70-10 provides procedures to ensure compliance with the Prompt Payment Act. Service center personnel were trained on these procedures in May 1992. Additionally, a special headquarters team reviewed bill paying and trained personnel from September 1992 through March 1993.

Audit response. The Director's indicated actions are responsive to the audit recommendation.

2. Maintain automated records in the Standard Automated Voucher Examination System to distinguish between original invoice submissions and corrected invoice submissions. Additionally, DeCA should develop a feature to record and track invoices returned to vendors and resubmitted for payment.

Management comments. The Director, DeCA, concurred with Recommendation 2., stating that DeCA developed and provided to the service centers an automated off-line method of tracking invalid invoices in October and November 1992. The Director also stated that DeCA is working toward incorporating the tracking of returned invoices into SAVES and expects this action to be completed by July 1994.

Audit response. The Director's indicated actions are responsive to the audit recommendation.

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**PART III - ADDITIONAL INFORMATION**

APPENDIX A - Statistical Sampling Plan and Results

APPENDIX B - Summary of Potential Benefits Resulting from Audit

APPENDIX C - Organizations Visited or Contacted

APPENDIX D - Report Distribution

## APPENDIX A. STATISTICAL SAMPLING PLAN AND RESULTS

### Sampling Plan

An objective of this audit was to determine the effectiveness of internal controls over vendor payments at DeCA. In support of this objective, we made statistical projections based on complex sampling designs of the total dollar amounts of duplicate payments and of invalid payments in the audit universe. We also projected statistically the net amount of unpaid interest on untimely vendor payments subject to the Prompt Payment Act.

The audit universe consisted of all vendor payments made by DeCA CONUS installations from October 1, 1991 to March 26, 1992. DeCA CONUS contained 250 installations and approximately \$1,624.8 million in vendor payments. (An installation was defined as a store or a Central Distribution Center.) Troop issue payments were combined with those of the store at the same site. The SAVES data base was the source for the data.

In cases where multiple vendor payments were made on the same invoice, duplicate payments were defined as the chronologically second and subsequent such payments. Invalid vendor payments were defined as payments made without proper support or with incorrect matching of invoice and receipt. These categories are mutually exclusive. None of the sampled payments that were identified as duplicate payments were counted as invalid payments. It is possible, however, that the first of multiple payments on the same invoice could be an invalid payment. Unpaid interest on untimely payments was defined as the difference between IG, DoD calculation of the interest due and the interest reported as paid in the SAVES data base. Differences of less than one dollar (five cases) were treated as correct. Two cases of interest overpayment were included so the statistical projection is of net interest unpaid.

We employed stratified multi-stage random sampling as the sampling design for this audit. We grouped installations by geographic location and total payment dollars. We divided the installations into two strata: those in high payment dollar geographic areas and those in low dollar amount areas. Within the high stratum, we selected 14 installations using probability proportional to size (PPS) sampling with replacement. The measure of size we used was the total dollar amounts of the payments associated with the installations. Within the low stratum, we selected six installations using simple random sampling (SRS) without replacement. We separated the vendor payments within each of the selected installations into four strata: probable duplicate payments (A), possible duplicate payments (B), payments with no invoice numbers (C), and all other payments (D). We selected payments in those strata within each

**APPENDIX A. STATISTICAL SAMPLING PLAN AND RESULTS** (cont'd)

sampled installation using PPS sampling with replacement. We sampled 3 unique payments from each A stratum, 4 from each B stratum, 3 from each C stratum, and 13 from each D stratum.

**Sampling Results.** Statistical projections of the sample data are as follows.

	<u>95 Percent Confidence Intervals</u>		
	<u>Lower</u> <u>Bound</u>	<u>Point</u> <u>Estimate</u> (Million)	<u>Upper</u> <u>Bound</u>
Duplicate Payments	\$ 3.9	\$ 11.4	\$ 18.8
Invalid Payments	210.6	403.5	596.5
Net Unpaid Interest	1.2	2.4	3.5

We are 95 percent confident that between \$3.9 million and \$18.8 million in duplicate vendor payments were made by DeCA for CONUS installations from October 1, 1991, to March 26, 1992. The unbiased point estimate of \$11.4 million is the most likely single value for duplicate payments in DeCA CONUS.

We are also 95 percent certain that between \$210.6 million and \$596.5 million of the vendor payments in the specified population are invalid. The most likely single value for the dollar amount of invalid payments in the population is \$403.5 million.

Also, we are 95 percent confident that between \$1.2 million and \$3.5 million in net interest on untimely vendor payments was unpaid by DeCA for CONUS installations from October 1, 1991, to March 26, 1992. The unbiased point estimate, \$2.4 million, is the most likely single value for net unpaid interest in this population.

**APPENDIX B. SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT**

<u>Recommendation Reference</u>	<u>Description of Benefits</u>	<u>Amount and/or Type of Benefit</u>
A.1., A.2., A.3., and A.4.	Economy and Efficiency and Internal Controls. A properly designed vendor payment system will provide a more effective system and reduce invalid and duplicate payments.	Funds put to better use. DeCA could recoup up to \$17 million in duplicate pay- ments to vendors.
B.1. and B.2.	Compliance. Follow procedures for determining due dates and interest paid in compliance with the Prompt Payment Act and OMB Circular A-125.	Undeterminable.
Other Matters of Interest		Funds put to better use. DeCA avoided authorizing \$191 million in duplicate pay- ments after being advised of duplicate invoices by the auditors.



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## APPENDIX C. ORGANIZATIONS VISITED OR CONTACTED

### Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)

### Defense Agencies

Defense Commissary Agency Headquarters, Fort Lee, Petersburg, VA  
Defense Commissary Agency, East Service Center, Fort Lee,  
Petersburg, VA  
Defense Commissary Agency, West Service Center,  
Kelly Air Force Base, San Antonio, TX  
Alameda Naval Air Station, Commissary Resale Store, Alameda, CA  
Charles Melvin Price Support Center, Commissary Resale Store,  
Granite City, IL  
Fort Benjamin Harrison, Commissary Resale Store, Indianapolis, IN  
Fort Carson, Commissary Resale Store, Colorado Springs, CO  
Fort Huachuca, Commissary Resale Store, Sierra Vista, AZ  
Fort Monroe, Commissary Resale Store, Hampton, VA  
Fort Ord, Commissary Resale Store, Monterey, CA  
Holloman Air Force Base, Commissary Resale Store, Alamogordo, NM  
Jacksonville Naval Air Station, Commissary Resale Store,  
Jacksonville, FL  
Kingsville Naval Air Station, Commissary Resale Store,  
Kingsville, TX  
Langley Air Force Base, Commissary Resale Store, Hampton, VA  
March Air Force Base, Commissary Resale Store, Riverside, CA  
McChord Air Force Base, Commissary Resale Store, Tacoma, WA  
National City Central Distribution Center, San Diego, CA  
Norton Air Force Base, Commissary Resale Store,  
San Bernardino, CA  
Oceana Commissary Resale Store, Virginia Beach, VA  
Patrick Air Force Base, Commissary Resale Store, Cocoa Beach, FL  
U.S. Air Force Academy, Commissary Resale Store,  
Colorado Springs, CO  
Wurtsmith Air Force Base, Commissary Resale Store, Oscoda, MI

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#### APPENDIX D. REPORT DISTRIBUTION

##### Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)  
Assistant Secretary of Defense (Force Management and Personnel)  
Assistant to the Secretary of Defense for Public Affairs  
Comptroller of the Department of Defense

##### Department of the Army

Army Audit Agency

##### Department of the Navy

Naval Audit Service

##### Department of the Air Force

Air Force Audit Agency

##### Defense Agencies

Director, Defense Commissary Agency  
Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Logistics Agency  
Director, Defense Logistics Studies Information Exchange  
Inspector General, Defense Intelligence Agency  
National Security Agency

##### Non-Defense Federal Organizations

Office of Management and Budget  
National Security Division, Special Projects Branch,  
Office of Federal Procurement Policy  
U.S. General Accounting Office  
National Security and International Affairs Division, Technical  
Information Center  
National Security and International Affairs Division, Defense  
and National Aeronautics and Space Administration Management  
Issues  
National Security and International Affairs Division, Military  
Operations and Capabilities Issues

Chairman and Ranking Minority Member of Each of the Following  
Congressional Committees and Subcommittees:

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services

APPENDIX D. REPORT DISTRIBUTION (cont'd)

Non-Defense Federal Organizations (cont'd)

Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Operations  
House Subcommittee on Legislation and National Security,  
Committee on Government Operations

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**PART IV- MANAGEMENT COMMENTS**

Defense Commissary Agency  
Audit Response to Specific Defense Commissary Agency Comments

MANAGEMENT COMMENTS: DEFENSE COMMISSARY AGENCY



REPLY TO  
ATTENTION OF

DEFENSE COMMISSARY AGENCY

HEADQUARTERS  
FORT LEE VIRGINIA 23801-6300

JUN 01 1993

IR

MEMORANDUM FOR INSPECTOR GENERAL, LOGISTICS SUPPORT  
DIRECTORATE, 400 ARMY NAVY DRIVE, ARLINGTON,  
VA 22202-2884

SUBJECT: Draft Audit Report on the Controls Over Vendor Payment  
Authorizations by the Defense Commissary Agency  
(Project No. 2LA-2003.03)

Reference: DoDIG Memorandum, dtd April 23, 1993, SAB.

Per your request in referenced memorandum, attached are our  
comments to the recommendations.

*Richard E. Beale, Jr.*  
RICHARD E. BEALE, JR.  
Major General, USA  
Director

Attachment:  
As Stated



**MANAGEMENT COMMENTS: DEFENSE COMMISSARY AGENCY (cont'd)**

**DEFENSE COMMISSARY AGENCY REPLY  
DRAFT AUDIT REPORT**

**SUBJECT:** Draft Audit Report on the Controls Over Vendor Payment  
Authorizations by the Defense Commissary Agency  
(Project No. 2LA-2003.03)

**Additional Comments:** The following additional comments are provided to the draft report.

**Executive Summary - Introduction:** Estimated sales for FY 1993 are \$6.0 billion versus \$6.7 billion.

**Executive Summary - Potential Benefits of Audit:** We disagree that the \$191 million is a potential monetary benefit as stated in the report. The invalid invoice records removed from the bill paying system were the erroneous invoices that the service centers had corrected for the vendors in lieu of returning invoices to the vendors. This cleanup of the invoice data base was not due to the DoDIG audit but was part of the process to matchup DeCA receipts with vendors invoices in the bill paying system. DeCA was aware of the invalid invoice records in the bill paying system and would not have permitted them to remain there and possibly be paid in error.

**Part I - Other Matters of Interest:** After a trial period, DeCA discontinued the edit of invoice numbers in the bill paying system because of the excessive processing time required to scan records. Vendors either did not use invoice numbers or they reused them frequently causing excessive outputs to review. The invoice number is not a mandatory requirement of the Prompt Payment Act or OMB Circular A-125. Vendors are reluctant to change their billing systems to meet a special DeCA requirement. For example, DeCA has been criticized by Congress for offering only semi-monthly rollup billing periods when the food industry uses multiple billing periods (i.e., monthly, weekly, etc.). Placing special invoice numbering requirements on food industry vendors will be viewed negatively by Congress as an attempt to establish additional payment criteria that is not in the current law or regulation.

After investigation of the processing delays experienced by the West Service Center, DeCA determined that the data communications network between the East and West Service Centers was the primary cause. Improvements were made in the data communications network that resolved the problems and they were more cost effective than establishing a second computer site at the West Service Center.

Significant efforts taken by DeCA to improve the vendor payment process that are omitted from your report are:

**MANAGEMENT COMMENTS: DEFENSE COMMISSARY AGENCY (cont'd)**

-DeCA provided briefings and bill paying training to industry prior to October 1, 1991 and has continued to do so to the present time. In March 1991 DeCA provided industry with guidance on the concept of operations to include bill paying. DeCA transition team members appeared at American Logistic Agency (ALA) conferences to present the DeCA concept of operation to include bill paying. The ALA is a trade association of vendors involved in supplying commissary resale items. Since October 1, 1991, bill paying training was provided by DeCA trainers to vendors at Longbeach, CA, Washington, D.C., Atlanta, GA, San Antonio, TX, and Seattle, WA.

-DeCA prepared a detailed bill paying guide for industry that was distributed to our vendors in March 1992. The guide reiterated the bill paying instructions that were provided vendors in DeCA's contracts; it provided examples; covered prompt pay invoice requirements; and provided points of contacts at DeCA service centers and regions to resolve bill paying problems. The guide was updated in September 1992 and reissued.

-DeCA developed contract matrixes by commissary for each vendor to assist them in preparing correct invoices. Initially, DeCA issued approximately 26,000 contracts to replace the over 60,000 used by the former military commissary systems. DeCA continued to refine the number of contracts needed and has reduced the number of contracts to approximately 16,000. Fewer contracts reduces the risk of the vendor submitting an incorrect invoice for payment.

-DeCA established a plan to assist small businesses in resolving bill paying problems. A small business ombudsman was appointed at the headquarters to oversee implementation of the plan. Small business cells were established at the DeCA regions and service centers; commissaries were directed to contact small business representatives visiting their stores to determine if they had bill paying problems and needed assistance.

-During FY 1992, DeCA retrained and certified commissary personnel, who were involved in the bill paying process, to ensure they were proficient and understood the procedures for ordering, receiving and inputting receipt data to the bill paying system.

**PART II - A. Vendor Payment Processing Controls:** The statement that DeCA did not adequately communicate contract numbers to vendors is not factual, and we have not seen audit evidence which supports the statement. DeCA issued contracts to vendors which provided not only contract numbers but billing instructions and the address for submitting invoices for payment. The majority of contracts were issued to vendors prior to October 1, 1991 with an effective date for ordering of October 1, 1991. In working with vendors to resolve bill paying problems during FY 1992, we determined that many vendors did not read their contracts although they had them. One national supplier determined that they had not

**MANAGEMENT COMMENTS: DEFENSE COMMISSARY AGENCY (cont'd)**

canceled a prior agreement with one of their major distributors to invoice DeCA on their behalf. The national supplier and their distributor were submitting duplicate invoices to DeCA for the same deliveries for over 6 months into FY 1992. DeCA determined that the edits in the DeCA bill paying system had rejected the duplicates and they were returned without payment.

The audit statement that DeCA paid \$11 million in duplicate payment should indicate that it is a projection. The DeCA service centers have only identified about \$3 million in duplicate payments as of May 1993 where the vendor was paid more than one time for the same delivery of items. When this is discovered, DeCA notifies the vendor to submit a check for the duplicate payment. If a vendor fails to make the refund, the amount is offset from a subsequent payment to the vendor.

The audit estimate of \$17 million in potential duplicate payments is overstated based on our research of the data from the audit. The DeCA West Service Center, based on research and identification of duplicate payments, estimates about 30 percent or approximately \$7.6 million of duplicate payments may have been made by them. The DeCA East Service Center has identified under \$100,000 in duplicate payments and estimates less than a million will be identified from the potential list of duplicates.

**PART II - Discussion of Details (Pages 5, 7 and 9):** The background statement does not adequately explain to the reader how and why the systems were selected although this is very pertinent to an understanding of the report. Additionally, on page 7 the statements on the testing and adoption of a bill paying system does not accurately state what happened in the selection of SAVES or the time available for testing.

-The DeCA transition team reviewed the stock fund accounting and bill paying systems of the prior commissary systems and several used by the Defense Logistics Agency (DLA) to select one for DeCA's use. The results of those reviews were as follows:

--The Navy and Marine Corps requested DeCA not consider use of their accounting systems due to the commitments already placed on the systems.

--The Base Operating Support System (BOSS) and the Defense Integrated Subsistence Management Information System (DISMS) were reviewed at DLA. The BOSS required major software changes to accommodate commissary accounting and bill paying requirements that could not be accomplished by the capitalization date. The financial/accounting software portion of the DISMS was not due to be completed in development and fielded until FY 1993.

--The Stock Material Accounting System (SMAS) used by the Air Force commissary system was originally selected for use by DeCA

**MANAGEMENT COMMENTS: DEFENSE COMMISSARY AGENCY (cont'd)**

transition team. The SMAS was a modern stock fund accounting system with an integrated commissary bill paying system. However, the systems were designed to operate in a UNISYS environment and they were only operational at base level with one or two commissaries per system. A contractor determined in December 1990 that the time to convert the SMAS to an IBM type environment would be approximately 45 weeks which was outside the consolidation window of October 1, 1991. The design agency for SMAS also raised questions whether the software could handle the volume of commissaries under each DeCA region.

-The Army's commissary stock fund accounting and bill paying systems (i.e. STANFINS and SAVES) were selected as the fall back systems. In January 1991 the STANFINS was stress tested by the Defense Information Technology Services Organization (DITSO), Indiana, Financial Systems Division, to ensure it would handle the projected volume of DeCA's stock fund transactions. The STANFINS passed the stress test. The ORACLE contractor supporting the Army's commissary bill paying system (SAVES) developed the recommended computer configuration based on functional analysis and synthesis of the projected payments for DeCA. Both systems were selected as a package because the interfaces were in place and would allow capitalization by October 1, 1991. However, changes were made to the STANFINS to accommodate the Air Force troop support function which delayed the turnover of the accounting system for DeCA's use until September 16, 1991 which prevented any integrated testing of the business, bill paying, and accounting systems prior to implementation. The late receipt of accounting and bill paying systems by DeCA was the predominate reason for inadequate integrated systems testing, training and system documentation.

**PART II - Written procedures for processing vendor payments:** Initially the Army's bill paying procedures were used by the DeCA service centers to pay bills. The DeCA service centers were opened in the latter half of FY 1991 to ease the transition to one commissary agency. Starting in April 1991 they began to take over the Army's commissary payments and in July 1991 the Navy's commissary payments were phased into the service centers. The Army's bill paying system (SAVES) and procedures were in use for the prior 5 years and were in compliance with OMB Circular A-125 and the Prompt Payment Act. DeCA revised and issued the bill paying procedures to the service centers in March 1992 and again after they were received from printing in July 1992. While some personnel did not have the procedures at their desks, they were distributed to the service centers and were available to the majority of personnel to include supervisors and lead examiners.

**PART II - Invoice data entry:** The audit report statements regarding invoice numbers implies they are the cause for duplicate payments which is not accurate. Invoice numbers are not a mandatory requirement of the Prompt Payment Act or OMB Circular A-

**MANAGEMENT COMMENTS: DEFENSE COMMISSARY AGENCY (cont'd)**

125. The DeCA bill paying system, SAVES, edits the contract number, order number and commissary identification number (i.e., DODAAC) upon entry of the invoice to identify duplicate invoices. When commissaries and/or service center personnel input changes to the contract and/or order number to correct errors they did not always delete the erroneous record from the bill paying system which later on, in some instances, was erroneously paid a second time.

In instances where the vendor's contract required a semi-monthly rollup invoice, the service centers added the vendor's invoices where they were not summarized as required. In the startup period, the service centers corrected rollup invoices and entered them in the bill paying system to ensure prompt payment in lieu of returning them to the vendor which would have caused longer payment delays.

**PART II - Receipt data entry:** The last sentence in the paragraph should be revised as follows:

Delivery documents for frequent and direct store deliveries were not being retained by all commissaries for the required 6 years and 3 months, as required by DeCA Directive 70-6.

The report implies that all commissaries did not retain documents as required. The report should state how many instances were found.

**PART II - Personnel:** The supervisory span of control for voucher examiner employees of 15 is adequate for this type of a function. We agree that inadequate staffing and training of personnel were problems in the service centers. This occurred for the following reasons. Initially, DeCA service centers were authorized up to 90 overhires each prior to October 1, 1991 to handle the phase in of the DeCA payments and the phase out of the Army and Navy commissary payments. It was estimated that these overhires would be eliminated by January 1992. However, the magnitude of the payment problems caused by vendors using incorrect contract and order numbers to prepare invoices or not preparing rollup invoices, coupled with system and communication problems to get receipt data into the bill paying system from store level, overwhelmed the service center staff. DeCA's reduced funding to achieve the mandated savings of the Jones Study further exacerbated the situation and prevented the hiring of additional staff until the latter part of FY 1992.

**PART II - Communication with Vendors:** The first sentence appears to be an overstatement and not adequately supported by audit results. DeCA issued contracts to vendors prior to October 1991 which included detailed billing instructions and the address for submitting their invoices for payment. As discussed earlier, the DeCA transition team provided training to industry on the concept

**MANAGEMENT COMMENTS: DEFENSE COMMISSARY AGENCY (cont'd)**

of operations to include bill paying. Additionally, the transition team worked with members of the ALA to develop the semi-monthly billing procedures used by DeCA. Subsequent to consolidation, DeCA provided several bill paying guides to industry and a number of training sessions around the United States which are above and beyond what is required of any government agency engaged in business with the private sector.

Commissaries were provided copies of DeCA contracts and contract information was provided via the automated system they used for ordering and inputting receipt information. Serious software problems with the former Air Force commissary automated system that was being used by 106 commissaries required that all receipts be reentered to the bill paying system starting in November 1991 through March 1992. This significantly added to late payments and entry errors which were not due to lack of contract information at the commissary level. DeCA had to put in a backup system at 106 locations to replace this system for inputting receipts to the bill paying system during this period.

**PART II - Subsequent Actions:** As previously discussed, based on potential duplicate payments you identified, the DeCA service centers have identified approximately \$3 million in duplicate payments. The West Service Center estimates duplicate payments of \$7.6 million when their research is completed in September 1993. The East Service Center has identified less than \$100,000 in duplicate payments to date and estimates less than \$1 million when they complete research.

**PART II - B. Adherence to the Prompt Payment Act:** As previously discussed adequate time was not available to perform extensive integrated testing of business, bill paying and accounting systems or publish formal procedures and conduct extensive training prior to consolidation October 1, 1991.

Due to the magnitude of incorrect invoicing by vendors, DeCA service centers made corrections in order to make payments. Our intentions were to pay vendors as promptly as possible during this turbulent period which we believe is the underlying philosophy for the Prompt Payment Act.

**PART II - Processing Delays:** We believe that the statement that DeCA service centers permitted unprocessed new and old invoices to literally pile up in mail buckets and filing cabinets and on voucher examiners' desks is an overstatement and not entirely factual as written. The DeCA service centers receive a total of approximately 11,000 invoices daily which equals to about 7 days for the 78,000 invoices you reported. The invoices with net 7 and 10 day due dates were given priority for input to the bill paying system to ensure timely payment. A 7 day delay on inputting invoices with net 23 and 30 day terms did not necessarily equate to late payments.

**MANAGEMENT COMMENTS: DEFENSE COMMISSARY AGENCY (cont'd)**

When the Prompt Pay Act changed the requirements to compute the discount from the date on the vendor's invoice rather than the date the invoice was received in the paying office, many discounts were lost due to the mail time in receiving the invoice in the paying office. Your sample should have shown how many discounts were lost because of this change in the Prompt Payment Act.

**PART II - Determination of due dates:** The last paragraph indicates that DeCA instructed its personnel to use the date of the changes as the date of invoice receipt for calculating the due date. DeCA headquarters issued no guidance to the service centers to use the current date when correcting invoices. The DeCA General Counsel conducted an investigation of these allegations and determined that there was much confusion among voucher examiners on what date to utilize in the above situation but the entry of current dates on corrected invoices was not consistent between the service centers and within the West Service Center.

**PART II - Return of Improper Invoices:** Previous discussions address DeCA's purpose in correcting vendors' invoices rather than returning them during the period of the audit. This section should state why DeCA chose to correct invoices rather than returning them to provide a balanced account of the situation reported.

DeCA implemented an Invalid Invoice Tracking System in the West Service Center in October 1992 and the East Service Center in November 1992.

**APPENDIX A:** DeCA questions your definition of duplicate payments. We believe it can mislead the reader into believing that DeCA paid multiple times for the same item. Your definition is based on the same invoice (i.e., invoice number) being paid more than one time by the DeCA service center.

As noted in the audit results, the service centers corrected erroneous contract and/or order numbers on vendors' invoices to sustain their cash flows in lieu of returning them which would have further delayed their payments. This was done to comply with the underlying intent of the Prompt Payment Act which is to pay vendors without delay. In many cases, as noted in the audit report, the old invoices were not deleted in SAVES and subsequently were used to make payments on another of the vendor's deliveries. Although the vendor's invoice number would be the same on both payments made by the service center, the payments, in fact, were for two different deliveries of items to the commissary. In all instances the service centers paid the lower amount of invoice or receipt amount so no overpayments were made to the vendor when two separate deliveries of items (i.e. receipts) were paid the vendor using the same invoice.

DeCA is not suggesting that paying for multiple deliveries (i.e. receipts) using the same invoice is the proper way to do

**MANAGEMENT COMMENTS: DEFENSE COMMISSARY AGENCY (cont'd)**

business. DeCA is as concerned as you that this has happened but we cannot undo what has occurred. The service centers have identified approximately \$3 million in true duplicate payments of those alleged to be duplicates. The West Service Center estimates they made approximately \$7.6 million in duplicate payments primarily because they were paying based on proof of delivery furnished by the vendor. The East Service Center has identified less than \$100,000 in duplicate payments and they estimate less than \$1 million in duplicates will be identified when the research is completed. Research of potential duplicate payments will be completed by September 30, 1993.

DeCA is considering using a contractor to review payments and identify duplicate payments for recoupment. The AAFES and NEXCOM use contractors to review their payment history to identify duplicate payments for recoupment. If we do so, we plan to have the contractor begin work before December 1993.

**REPLIES TO RECOMMENDATIONS**

**Finding A. Vendor Payment Processing Controls**

Recommendation 1. Obtain Standard Automated Voucher Examination System documentation and upgrade automatic data processing capabilities, by increasing computer edit checks, and documenting the internal controls for the bill paying computer system.

Action Taken. Concur. About 85 percent of the ADP documentation has been developed for SAVES. The additional 15 percent is currently being developed, to include flowcharts for receipt processing, description of the monthly sequential processing, an operators runbook, and a data element cross reference. The target date for completion of the documentation is July 31, 1993. Documentation will continue to be updated and maintained as programs, processes, and modules change.

Over the past 10 months, enhancements were made to SAVES data processing capabilities. The nightly batch cycle processing time has been reduced from 10.5 hours to 4.5 hours, greatly increasing system availability. Upgrades to the contracting modules, to include complete audit tracking, fast-pay module, streamlined DTI processing, and various tracking reports have been implemented to improve controls. Also added was electronic invoice processing, saving time and labor and resulting in a more error-free input source. Also, hardware and software upgrades were implemented, providing better performance and increased storage capacity.

Edit checks of the invoice number were stopped by DeCA after initial implementation. DeCA processes approximately 10 percent of the total invoices paid by the Department of Defense. With this volume of transactions, any hardware and/or software configuration



**MANAGEMENT COMMENTS: DEFENSE COMMISSARY AGENCY (cont'd)**

would become saturated after a short time. The full implementation of the DeCA Interim Business System (DIBS) will further ensure there is no recurrence of the contract and order number problems experienced by DeCA in the first half of FY 1992.

Recommendation 2. Place all financial functions under the operational control of the Director, Resource Management.

Action Taken. Concur. All finance functions have been placed under the control of the Director, Resource Management effective February 1, 1993.

Recommendation 3. Establish a written plan for evaluating, testing, and monitoring the bill paying system.

Action Taken. Concur. The development and implementation of DeCA Directive 30-9, Configuration Management for Automated Information Systems (AIS), March 12, 1993 together with the active involvement of the DeCA Configuration Control Board (CCB) have significantly enhanced the evaluation, monitoring and control of SAVES software changes and overall system operations. DeCA Directive 30-8, Automated Information Systems (AIS) Testing Procedures, February 26, 1993, prescribes the applicability, objectives and policy, and assigns responsibility for the planning, execution and evaluation of computer software testing of automated data systems within the DeCA and as required in DoD-STD-2167A. Since the draft was released in June 1992, testing of SAVES has conscientiously conformed to the directive. Subsequent testing of software release packages has involved both functional representatives from headquarters, service centers and regions, and the system developers, utilizing test plans and test condition requirements to thoroughly analyze the changes to the system and all interfacing systems. Test analysis reports are prepared and all outstanding problems resolved before the test chairman certifies software for release.

Recommendation 4. Research the listing of FY 1992 potential duplicate payments provided to DeCA and take action to recoup duplicate payments.

Action Taken. Concur. The possible duplicate payment listing is being reviewed by a dedicated team at each service center, and action is being taken to collect any payments not authorized. The service centers have identified approximately \$3 million in duplicate payments to date. The West Service Center estimates duplicate payments of \$7.6 million when their research is completed in September 1993. The East Service Center has identified less than \$100,000 in duplicate payments to date and estimates less than \$1 million when they complete research.

Potential Benefits Resulting from Audit. DeCA could recoup up to \$17 million in duplicate payments to vendors.

**MANAGEMENT COMMENTS: DEFENSE COMMISSARY AGENCY (cont'd)**

DeCA Comments. The projected amount of benefits resulting from the audit appears questionable. We agree that the prevention of duplicate payments (i.e., where the same items are paid for more than one time) would put funds to better use. However, based on the research of potential duplicate payments the West Service Center projects \$7.6 million and the East Service Center projects less than \$1 million in actual duplicate payments to be recovered.

Finding B. Adherence to the Prompt Payment Act

Recommendation 1. Establish controls to ensure that service center personnel meet requirements of the Prompt Payment Act.

Action Taken. Concur. DeCAD 70-10 provides procedures to ensure Prompt Payment requirements are adhered to for payments to commercial vendors. Service center personnel were trained on these procedures in May 1992. In addition, a special headquarters Resource Management team reviewed service center bill paying and trained personnel during the period September 1992 through March 1993.

Recommendation 2. Maintain automated records in the Standard Automated Voucher Examination System to distinguish between original invoice submissions and corrected invoice submissions. Additionally, develop a feature to record and track invoices returned to vendors and resubmitted for payment.

Action Taken. Concur. The Invalid Invoice Tracking System (IITS) was developed and released to the service centers in October and November 1992 as an automated off-line method of tracking invalid invoices. This system records invalid invoices returned to the vendor, and, upon resubmission of the invoice, provides an adjusted date for payment purposes, to meet Prompt Payment requirements. The system identifies, by reason codes, the errors causing the invoice to be invalid, provides the vendor this information and the corrective action needed when the invoice is returned.

DeCA is working toward incorporating the tracking of returned invoices into SAVES. The first step to incorporate tracking was initiated with the implementation of EDI invoicing. When an EDI invoice is not inserted into SAVES data base, it is assigned a reason code. These reason codes are based on criteria that identifies why an invoice should be returned. SAVES maintains a table of the invoice records that have been rejected with all the data transmitted and the reason code of why it was rejected. Projected date for this SAVES enhancement to be completed is July 1994 after DIBS full deployment.

Potential Benefits Resulting from Audit. Undeterminable.

DeCA Comments. Concur. Monetary benefits are undeterminable.

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## **Audit Response to Significant Management Comments**

The following paragraphs summarize the significant management comments and provide audit responses to those comments. The comments and response are presented in the same sequence as the full text of management comments. The subheadings are those used by management.

### **PART I - Other Matters of Interest.**

**DeCA comments.** The Director, DCA stated that after a trial period, DeCA discontinued the edit of invoice numbers in the bill paying system because of excessive time to scan records. The Director also stated that the use of invoice numbers is not required by the Prompt Payment Act.

**Audit response.** We agree that the edit of invoice numbers is not required by the Prompt Payment Act. Our concern is that the SAVES does not include sufficient edit checks to preclude duplicate payments as shown by DeCA's experience. The use of invoice number is one of many possible checks. The use of invoice numbers is a common business practice and an edit check using invoice numbers would be a meaningful internal control. However, other information could be used to perform edit checks for erroneous invoices. Comparisons of contract data, receipt and invoice dates, or dollar amounts are a few of the many possible edit checks.

### **PART II - A. Vendor Payment Processing Controls.**

**DeCA comments.** The Director, DeCA, said the statement in the report that DeCA did not adequately communicate contract numbers to vendors is incorrect. The Director said that DeCA issued the majority of contracts to vendors prior to October 1, 1991, which provided not only contract numbers but billing instructions and the address for submitting invoices for payment.

**Audit response.** DeCA did not adequately communicate the contract numbers to vendors because it provided more contracts than required and communicated the contract numbers in a manner that the vendors were unable to comprehend and to use for preparing invoices. DeCA initially issued approximately 26,000 contracts to vendors and later reduced the number of contracts to 16,000. Issuing only the number of contracts needed would have reduced the risk of a vendor submitting an incorrect invoice for payment. Because DeCA originally issued more contracts to vendors than required, vendors were confused about which contract to use in billing for deliveries. Vendors were also confused because different types of deliveries to the same commissary required the

use of different contracts. To resolve the confusion, DeCA developed contract matrices, by commissary, for each vendor, which assisted vendors in preparing correct invoices.

**DeCA comments.** The Director, DeCA stated that the statement in the report that DeCA paid \$11 million in duplicate payments during the first half of FY 1992 should be modified to indicate that the \$11 million is a projection. DeCA has identified only \$3 million in duplicate payments as of May 1993. The Director also stated that the service centers have estimated the total duplicate payment to be about \$8.6 million [for FY 1992] compared to the identified monetary benefits of \$17 million.

**Audit response.** The report has been clarified to indicate that the \$11 million is a projection. The DeCA response, however, erroneously implies that DeCA is estimating that there will be about \$8.6 million in duplicate payments based on a listing of duplicate payments that contains \$17 million in duplicate invoices. The DeCA estimate of \$8.6 million is based on a listing we provided that contained about \$11 million in duplicate payments. The list covered the period from October 1, 1991, through March 26, 1992. The \$8.6 million is within the confidence intervals of the point estimate.

## **PART II - B. Adherence to the Prompt Payment Act.**

**DeCA comments.** The Director, DeCA, stated that the intent was to pay vendors as promptly as possible, which DeCA believes is the underlying philosophy of the Prompt Payment Act. Due to the magnitude of incorrect invoices submitted by vendors, DeCA's service center personnel made corrections in order to make payments.

**Audit response.** DeCA did not comply with the requirements of the Prompt Payment Act. DeCA was required to pay vendors promptly and maintain adequate internal controls. DeCA did not use correct due dates for determining interest payments, return improper invoices to vendors for correction, and develop and apply a reliable system of internal controls for processing invoices for payment. The magnitude of incorrect invoicing by vendors was caused by DeCA's inadequate communication of contract information to vendors.

### **Processing Delays**

**DeCA comments.** The Director, DeCA, stated that the statement in the report that service centers permitted unprocessed invoices to literally pile up in mail buckets and filing cabinets and on voucher examiners' desks is an overstatement and not entirely factual. The service centers receive approximately 11,000 invoices daily, which equals about 78,000 invoices in a

7-day period. The Director contended that a 7-day delay in processing invoices with a net 23 or 30-day term did not necessarily equate to late payments.

**Audit response.** We observed invoices in the service centers literally piled up in mail buckets and in filing cabinets and on voucher examiners' desks. The 78,000 invoices reported was an estimate based on cubic volume of invoices observed (auditors could not possibly count the number of unprocessed invoices at that time.) Additionally, all the unprocessed vendor invoices in the service centers were not in view for the auditors to observe. Some of the observed invoices were received almost 30 days prior and had not been entered into the bill paying system.

#### **Determination of Due Dates**

**DeCA comments.** The Director, DeCA disagreed with the statement in the report that DeCA instructed its personnel to use the date of DeCA changes as the date of invoice receipt for calculating the due date. The Director stated that DeCA headquarters issued no guidance to service centers to use the current date when correcting invoices.

**Audit response.** We did not state that DeCA headquarters issued guidance requiring the use of the current date for calculating the due date and any interest due the vendor. We were told by voucher examiners that service center managers told them to use the current date. This has been confirmed by congressional testimony and concurrent IG investigations.

#### **APPENDIX A**

**DeCA comments.** The Director, DeCA, stated that the IG, DoD, definition of a duplicate payment could mislead the reader into believing that DeCA paid multiple times for the same item. The Director stated that the IG, DoD, definition of duplicate payments was based on the same invoice (that is, invoice number) being paid more than one time by a service center. The Director agreed that DeCA corrected invoice entries and reentered the invoice data into the bill paying system although the original invoice data entries were not deleted. Service center personnel used the prior invoice entries to make payments on another of the vendor's deliveries. Although the vendor's invoice number would be the same on both payments, the payments were for two different deliveries to the commissary. In all instances the service centers paid the lower of invoice or receipt amount so no overpayments were made when two separate deliveries of items were paid the vendor using the same invoice. The Director also stated that DeCA is not suggesting that paying for multiple deliveries (that is, receipts) using the same invoice is the proper way to do business.

**Audit response.** DeCA did make multiple payments on the same invoice, often for the same delivery. The IG, DoD, determined that DeCA made duplicate payments because DeCA modified and reentered data for invoices and receipts without deleting the original entries. The IG, DoD, defined duplicate payments in cases where multiple vendor payments were made on the same invoice as the chronologically second and subsequent such payments. The ongoing effort by DeCA to identify about \$8.6 million in duplicate payments supports our statement that multiple payments were made on the same invoice for the same delivery.

The Director mentioned the practice of paying the lower amount of invoice or receipt when paying vendors using the same invoice for different receipts. DeCA used that practice instead of reconciling differences between invoice amounts and receipt amounts in excess of a dollar threshold. Paying the lesser of invoice or receipt is an example of the breakdown of internal controls that permitted duplicate payments to occur. Such breakdown makes the accuracy of DeCA's accounting records suspect.

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